



Revenue Caps and Democracy, Part I

By Dr. Nelson Easterling

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The continuing issue of the federal debt ceiling should give all of us pause. It is also a time to reflect on the state of fiscal and economic policy debate in America and in several states.

The first thing that should be apparent is that we have lost contact with the essence of government and the role of taxes in governance. Taxes are a way to pay for programs that government is established to perform. These programs are best handled by government because the private market place will not, or cannot, address them properly. When private enterprise fails to serve the citizens of any public entity, that entity has the right and the responsibility to ensure that these services and programs are established through the public sector.

Even the most ardent conservatives recognize many of these programs. Specifically, the private marketplace will not provide what economists call public goods and externalities. The first of these terms is typified by public safety. Public safety (police and the courts, or national defense) cannot be provided by the private market because it is impossible to get people to pay for them when people who refuse to pay receive the same benefits as those who do. It is called the “free rider” problem.

The second is typified by pollution. If government does not regulate pollution, the costs of the pollution are shifted to the citizens instead of the user of the product that causes the pollution. That means the price of the product does not reflect its true social costs, and that price anomaly distorts the market and consumer choices. Governmental regulation is required to restore the market to its best state.

So, with the understanding that government is a necessity, the debate in a democratic republic should be about what programs are necessary and how to provide them. When that determination is made, and it is a continuing process, the next step is to decide on the best way to pay for them with the least adverse consequence on the private decisions of citizens and consumers.

In recent years, the minority voters that make up the so-called fiscal conservatives have been losing the debate on what programs are needed. They opposed the creation of Social Security and Unemployment Compensation programs when they were created in the 1930s. They opposed the creation of Medicaid and Medicare when they were created in the 1960s. The more radical ones opposed minimum wage and child labor laws.

Since they could not defeat them in debate, they are now trying to defeat them with trickery.

They have been successful in convincing the American people that government can provide all the services and programs they need with lower taxes. Originally, they used deficit spending to pull the

wool over our eyes. They provided the services, but did not raise the revenues to pay for them. They even reduced taxes while increasing programs. They endangered our economic future for their short-term political gain.

Some, like David Stockman (Reagan's Director of the Office of Management and Budget) admitted that they were trying to create a fiscal position that was so horrific that the people would accept a halt to the programs that conservatives despised but could not prevent. In his list of programs to be eliminated, he included Social Security, veteran's benefits, education, and housing.

After 30 years of increasing budget deficits, they now have the tool they always wanted. Now, they have the ability to threaten the credit rating and international image of the nation. And they are using that tool. They are threatening to use an antiquated law that sets a credit maximum to force the nation to renege on its stated public promises.

Congress, who has sole power to establish tax rates and spending levels, created this antiquated law to prevent itself from being foolish with public funds. That law was first passed during World War I. Over the years, the level of borrowing that it establishes has been routinely increased. After all, Congress sets the taxes and the spending. The difference is a deficit that is made up by borrowing. The aggregation of the deficits is the national debt. Because of congressional actions, the debt is too high – according to Congress. But they created it. Now they want to use it to circumvent the very essence of democracy.

Many in Congress, like many state political leaders (including Florida), want to stop debating the role of government and the services it can and should provide. They want to set an arbitrary level of spending or taxes and eliminate the ability of the citizens to decide their own fate. The mechanism they use for that trick is to create arbitrary revenue caps and then demand the use of super majorities to exceed the arbitrary caps. That turns governmental power over to minority opinions.

Ours is the only democratic country that I know of that has fallen for such absurdities. The strong economic and democratic countries of Europe do not. And they all have much higher tax burdens than do we. But they still control their governments instead of their governments controlling them.

And that is the result that some seek with the current debate. They want government to control us instead of us controlling the government.

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